

## Message Text

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ACTION STR-04

INFO OCT-01 EA-07 IO-13 ISO-00 STRE-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02

OMB-01 FEA-01 AF-08 ARA-06 EUR-12 NEA-10 OIC-02 /139 W

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P R 161746Z JUL 76

FM USDEL MTN GENEVA

TO SECSTATE WASHDC PRIORITY 1762

INFO AMEMBASSY TOKYO

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ACTION STR

E.O. 11652: N/A

TAGS: JA GATT MTN

SUBJECT: COMPENSATION NEGOTIATION WITH JAPAN

1. SUMMARY: WITH A GREAT DEAL OF CAUTION BEING DISPLAYED BY BOTH SIDES, FORMAL NEGOTIATIONS OPENED WITH JAPAN ON COMPENSATION ISSUES ARISING FROM US ARTICLE XIX ACTIONS TAKEN SINCE 1971, AND ON THE STATUS OF COMPENSATION DEBITS AND CREDITS ACCUMULATED SINCE THAT TIME. JAPANESE DE INDICATED THAT COMPENSATION ISSUES SHOULD BE DISCUSSED APART FROM THE MTN, THAT A SETTLEMENT ON COMPENSATION DUE FOR US ESCAPE CLAUSE ACTIONS, ESPECIALLY CERAMIC DINNERWARE, WAS OF POLITICAL IMPORTANCE. US DEL EMPHASIZD OUT- STANDING CREDITS DUE THE US WHICH COULD BE USED TO PARTIALLY OFFSET THE DEBIT FOR RADIAL BALL BEARINGS, AND OUTLINED THE US PROPOSAL FOR A SEPARATE PACKAGE WHICH WOULD REFINE DINNERWARE SUBPART OF THE TSUS. THE LATTER MET A DECIDEDLY SKEPTICAL RECEPTION. THE THREE-HOUR MEETING

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WAS BUSINESSLIKE, WITH BOTH SIDES EXCHANGING PRELIMINARY

DATA, AND ENDED WITH AN UNDERSTANDING TO RESUME IN SEPTEMBER. END SUMMARY.

2. JAPANESE DEL (TERADA AND TAMORI OF JAPANESE PERMANENT MISSION, AND KUSAKABE OF MITI) BEGAN BY RECALLING THE PREVIOUS SETTLEMENT IN 1971, AND THE REASONS FOR THE DELAYS IN REACHING A NEW BALANCE. TERADA NOTED IT IS "NOT WISE" TO LEAVE ARTICLE XIX PROBLEMS UNRESOLVED FOR LONG PERIODS SINCE SUCH DELAYS CAUSE "UNEASY CONDITIONS". HE EMPHASIZED THE IMPORTANCE OF THE US MARKET FOR JAPANESE EXPORTS OF BALL BEARINGS AND DINNERWARE, AND EXPRESSED THE VIEW THAT NEGOTIATIONS MUST BE KEPT APART FROM THE MTN. HW WAS ESPECIALLY CAREFUL TO EXCLUDE SPECIALITY STEEL FROM THE SCOPE OF THE DISCUSSION.

3. US DEL (MANAMARA, MALISH AND HART) EXPRESSED GENERAL AGREEMENT WITH MOST OF TERADA'S BASIC HISTORICAL OBSERVATIONS, AND AGREED THAT SPECIALTY STEEL WAS NOT A PART OF THESE NEGOTIATIONS. DRAWING ON APPROVED POSITION PAPERS, McNAMARA FIRST LAID GROUNDWORK FOR CONSIDERING DINNERWARE SEPARATELY AND THEN PROVIDED JAPANESE DEL WITH LIST OF ITEMS, BUT NOT TRADE VALUES, WHICH CONSTITUTED US CREDITS TO COMPENSATE FOR BALL BEARINGS, STATING THAT IF ANY FURTHER COMPENSATION WERE OWED, WE PROPOSED SETTLING RESIDUAL DEBT IN THE MTN. SMCNAMARA NOTED US POLITICAL DIFFICULTIES IN GRANTING COMPENSATION SO LAONG AS JAPAN MAINTAINED GATT-ILLEGAL QUANTITATIVE RESTRICTIONS, AND POINTED OUT THAT REGARDLESS OF US PROPOSALS IN THE SAFEGUARDS AREA, THE US WOULD HONOR PAST OBLIGATIONS. US DEL EMPHASIZED THAT, AS IN 1971, AN AGREED MINUTE OR MEMORANDUM OF UNDERSTANDING WOULD BE DESIRED TO RECORD THE ULTIMATE AGREEMENT. THE JAPANESE DEL APPEARED TO ACCEPT AN AGREED UPON MINUTE AT THE CLOSE OF THE NEGOTIATIONS.

4. US DEL OUTLINED IN SOME DETAIL HISTORY AND EXTENT OF US ESCAPE CLAUSE ACTION ON BALL BEARINGS. AT CONCLUSION OF PRESENTATION, TAMORI ASKED IF THE DEL COULD PROVIDE US PRODUCTION DATA FOR THE BALL BEARINGS SINCE ESCAPE ACTION WAS TAKEN. US DEL REPLIED THAT LIMITED OFFICIAL USE

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SOME INFORMATION WOULD BE PROVIDED, THOUGH PRODUCTION DATA WOULD NOT DISTINGUISH BETWEEN BEARINGS COVERED OR NOT COVERED BY ESCAPE CLAUSE ACTION.

5. TAMORI PROVIDED US DEL WITH STATISTICS SHOWING JAPANESE CONCEPT OF BALANCE SHEET WHICH CUMULATED TRADE AND IMPORT DUTY DATA CONSTRUCTED FROM US TRADE FIGURES, FOR THE PERIOD JANUARY 1972-JANUARY 1976. (THIS DATA

BEING HAND-CARRIED BY HART AND BEING SENT BY SEPARATE AIRGRAM.) CUMULATIVE BALANCE, AS CALCULATED BY JAPAN, SHOWS \$107.5 MILLION IN TRADE VALUE AND \$13.7 MILLION IN ADDITIONAL DUTIES COLLECTED AS AMOUNT FOR WHICH US OWES COMPENSATION FOR CERAMIC ARTICLES AND BALL BEARINGS THROUGH 1975. US CREDITS FOR COTTON TYPEWRITER RIBBON CLOTH, SHEET GLASS AND WILTON AND VELVET CARPETS SHOWN AS \$9.1 MILLION ON TRADE VALUE BASIS, AND \$0.5 MILLION ON DUTIES SAVED BASIS. US DEL NOTED THAT WE WOULD WANT TO STUDY THE DATA, AND WOULD CONFER ON THEIR STATISTICAL CORRECTNESS LATER.

6. IN SEPARATE DISCUSSION NCNAMARA DESCRIBED COMPLEXITY AND GROWING OBSOLESCENCE OF US DINNERWARE SCHEDULE, AND PROVIDED JAPANESE DEL WITH PROPOSED NEW NOMENCLATURE AND DUTY RATES, STATISTICS ON IMPORTS AND DUTIES COLLECTED ON IMPORTS FROM JAPAN, HE EMPHASIZED THAT BEFORE THE PACKAGE COULD BE IMPLEMENTED THE PROCEDURE REQUIRED BY THE TRADE ACT WOULD HAVE TO BE CARRIED OUT. US DEL NTED THAT THE SIMPLIFICATION AS ENVISAGED WOULD BE OF CONSIDERABLE VALUE TO JAPAN AND WOULD RESULT IN PERMANENT CONCESSIONS DESIGNED TO COMPENSATE THAT SPECIFIC PORTION OF JAPANESE INDUSTRY AFFECTED BY THE US ESCAPE ACTION. JAPANESE DEL WAS OPENLY SKEPTICAL OF THE PROPOSAL, AND REPEATED SEVERAL TIMES THAT IT WAS FIFFICULT TO CONCEIVE OF A NOMENCLATURE REVISION CNSTITUTING A MEANS TO OFFSET PAST ESCAPE CLAUSE ACIONS. MOREOVER, IT SEEMED LIKELY TO CONFUSE IN THE MTN A NEGOTIATION WHICH IN THE JAPANESE VIEW, SHOULD ONLY BE CONSIDERED AS A BILATERAL ISSUE.

7. US DEL URGED GOJ TO CAREFULLY STUDY THE DINNERWARE LIMITED OFFICIAL USE

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IDEA BEFORE REACTING TO IT. AFTER SEVERAL APPROACHES IN WHICH US HIGHLIGHTED THE VALUE OF THE PROPOSED REVISION WHICH CONTAINED DUTY REDUCTION. AND AFTER OFFERING THE HOPE OF SOME US PRESENTATIONAL FLEXIBILITY IF JAPAN HAD INTERNAL PROBLEMS WITH OBTAINING COMPENSATION AS PART OF AN MTN PACKAGE, THE JAPANESE DEL AGREED TO TAKE NOTE OF THE US CONTEMPLATED PROPOSAL AND EXAMINE ITS CONTENT.

AMONG LIST OF US CREDITS SUPPLIED TO THE JAPANESE DEL, THE US DEL HAD SHOWN THE US COMPENSATION ITEMS FOR STAILESS STEEL TABLE FLATWARE, (DOLLS, STUFFED TOY ANIMALS, ETC.), AS A CREDIT DUE AFTER 30 SEPT 1976. AT CONCLUSION OF MEETIG, KUSAKABE NOTED STAINLUESS STEEL TABLE FLATWARE OMITTED FROM

JAPANESE CALCULATIONS AND ASKED IF US DEL COULD  
PROVIDE TRADE DATA ON IMPORTS OF FLATWARE OVER AND  
UNDER THE TARIFF-RATE QUOTA. HE WAS OBVIOUSLY INTERESTED  
IN WHETHER JAPAN WOULD OWE THE US ANYTHING AFTER  
TERMINATION OF THE TARIFF-RATE QUOTA.

9. MEETING ENDED WITH TERADA SUGGESTING NEXT SESSION  
AFTER THE SUMMER BREAK. BOTH DELEGATIONS INFORMALLY  
AGREED THAT SEPTEMBER WOULD LIKELY BE THE BEST TIME  
FOR THE NEXT MEETING.

10. COMMENT: MEETING WAS GENERALLY SUCCESSFUL FROM  
US VIEWPOINT. AN ITEM-BY-ITEM CALCULATION OF  
TRADE VALUES AND DUTIES WAS AVOIDED, ALTHOUGH  
JAPANESE STATISTICS APPEAR AT FIRST GLANCE TO BE  
GENERALLY IN THE BALL PARK AND (BECAUSE OF STATISTICAL  
ERROR MADE BY THE JAPANESE) MORE FAVORABLE TO US  
THAN OUR OWN COMPUTATIONS. US DINNERWARE SUGGESTION  
OBVIOUSLY CAUGHT JAPANESE OFF-GUARD AND THEY WERE  
SOMEWHAT TAKEN ABACK. THEIR IMMEDIATE REACTION WAS  
TO STATE THAT A FUTURE CHANGE IN US TARIFF SCHEDULES  
SHOULD BE TREATED AS A SEPARATE MATTER, NOT AS A PART  
OF A COMPENSATION NEGOTIATION. THEY SPOKE AT LENGTH  
OF THE POLITICAL INFLUENCE OF THE JAPANESE DINNERWARE  
INDUSTRY AND THE NEED TO OBTAIN COMPENSATION FOR  
THE US ESCAPE CLAUSE ACTION EVEN THOUGH BALL  
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BEARINGS HAVE A CONSIDERABLY LARGER TRADE VALUE. THEY  
ALSO SEEM TO BE FACED WITH DOMESTIC PRESENTATIONAL  
PROBLEMS PLACING STRONG EMPHASIS ON OBTAINING AN  
AGREEMENT AS A SEPARATE PACKAGE APART FROM THE MTN.  
END COMMENT.WALKER

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## Message Attributes

**Automatic Decaptoning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COMPENSATION, NEGOTIATIONS, ESCAPE CLAUSE (TARIFF), BEARINGS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 16 JUL 1976  
**Decapton Date:** 01 JAN 1960  
**Decapton Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** saccheem  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976MTNGE05701  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760275-0421  
**From:** MTN GENEVA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760751/aaaabsce.tel  
**Line Count:** 206  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION STR  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** saccheem  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 10 MAY 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <10 MAY 2004 by buchant0>; APPROVED <22 SEP 2004 by saccheem>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** COMPENSATION NEGOTIATION WITH JAPAN  
**TAGS:** ETRD, JA, US, GATT, MTN  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006